

The value of ND at Gate Closure should be subtracted from the subsequent values of ND. The result will give an indication of variation from ND post Gate Closure.

$$D^{**} = D^* - D^*(\text{at Gate Closure})$$

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This can also be calculated by server 16 and published by server 18

The value of  $D^*$  can be used to influence the volume and price of traded options designed to hedge the impact of SBP (System Buy Price) and SSP (System Sell Price).

10 As the value of  $D^*$  changes with time, so traders will continually refine their positions in the market.

The following are some basic option structure examples. The assumption is that  $S$  is the option strike price, and all options are exchange traded and therefore standardised in

15 size to, say, 1MWh.

$$\text{Call Option payout} = \text{SBP}(X) - S(X) \quad \text{where } \text{SBP}(X) - S(X) > 0$$

$$\text{Put Option payout} = S(X) - \text{SBP}(X) \quad \text{where } S(X) - \text{SBP}(X) > 0$$

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$$\text{Put Option payout} = S(X) - \text{SSP}(X) \quad \text{where } S(X) - \text{SSP}(X) > 0$$

25 An alternative market of options is the trade in  $D^*$ . If there is a fixed payout of say £20/MWh and  $SV$  is the Strike volume of  $D^*$ , then

$$\text{Call Option payout} = D^*(X) - SV(X) \quad \text{where } D^*(X) - SV(X) > 0$$

$$\text{Put Option payout} = SV(X) - D^*(X) \quad \text{where } SV(X) - D^*(X) > 0$$

30 More complex options would evolve in due course covering multiple Settlement Periods e.g. all overnight Settlement Periods in a month or all Settlement Periods 35 for working days in a particular month. Other complex options such as bull and bear or spark spreads would also evolve.